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MONTANA MEDICAL LEGAL PANEL

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 1993 AND 1992

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MONTANA MEDICAL LEGAL PANEL

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 1993 AND 1992

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
PO BOX 201705
HELENA, MONTANA 59620-1705
406/444-3122
FAX 406/444-3036

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

August 1994

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Medical-Legal Panel, Montana Supreme Court, for the year ended December 31, 1993.

The audit was conducted by Henry Fenton, Certified Public Accountant, under a contract between the accountant and our office. The comments contained in this report represent the views of the accountant and not necessarily the Legislative Auditor.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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MONTANA MEDICAL LEGAL PANEL

ADMINISTRATIVE OFFICIALS

G. Brian Zins	Director
Lavonne J. Arnold	Assistant Director

Montana Medical Legal Panel
December 31, 1993
Summary of Rcommendations

Page 12 Recommendation

Require a second indivdual to sign checks and/or have a second individual review bank reconciliations and cancelled checks.

Page 14 Agency Response

Agency has since adopted a policy of requiring a second signature on all checks and having an additional person review bank reconciliations.

HENRY FENTON
CERTIFIED PUBLIC ACCOUNTANT
1052 NORTH RODNEY
HELENA, MT 59601

PHONE 449-6049

INDEPENDENT AUDITOR'S REPORT

July 25, 1994

Mr. G. Brian Zins, Director
Montana Medical Legal Panel
2021 Eleventh Avenue
Helena, Mt. 59601

I have audited the accompanying statement of assets, liabilities, and surplus arising form cash transactions of the Montana Medical Legal Panel as of December 31, 1993, and the related statement of revenues collected, expenses paid, and changes in surplus arising from cash transactions for the year then ended. These financial statements are the responsibility of the management of the Montana Medical Legal Panel. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of the Montana Medical Legal Panel as of December 31, 1992 were audited by other auditors whose report dated August 17, 1993 expressed an unqualified opinion that the statements were presented fairly in accordance with the cash receipts and disbursements basis of accounting, as described in paragraph three of this report and in Note 1 to the accompanying financial statements.

I conducted my audit in accordance wiith generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the Montana Medical Legal Panel's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, revenues and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to

present financial position and results of operations in comformity with generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 1993 and its revenues collected, expenses paid, and changes in surplus for the year then ended, on the basis of accounting described in Note 1.

Henry Fenton
Certified Public Accountant

MONTANA MEDICAL LEGAL PANEL
STATEMENT OF ASSETS, LIABILITIES, AND SURPLUS
ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 1993 AND 1992

ASSETS

	1993	1992
Current assets:		
Cash in bank	$78,656	$96,989
Other receivables		150
Total current assets	$78,656	$97,139

LIABILITIES AND SURPLUS

Surplus	$78,656	$97,139

See accompanying notes to financial statements.

MONTANA MEDICAL LEGAL PANEL
STATEMENT OF REVENUES COLLECTED, EXPENSES PAID, AND CHANGES IN SURPLUS
ARISING FROM CASH TRANSACTIONS
FOR THE YEARS ENDED DECEMBER 31, 1993 AND 1992

	1993	1992
Income:		
Assessment fees	$317,989	$367,760
Interest income	4,812	5,972
Miscellaneous income	815	375
Total income	323,616	374,107
Expenses:		
Administrative	146,982	151,680
Panelist hearing time	67,086	55,244
Panelist preparation and travel time	31,333	26,988
Panelist travel	36,354	31,471
Records reproduction	23,849	18,362
Postage	10,123	8,420
Medical records and x-rays	7,270	7,714
Telephone	5,677	5,715
Office supplies	2,114	1,763
Panel legal counsel	1,782	4,835
Computer software	1,373	6,418
Miscellaneous	8,156	7,004
Total expenses	342,099	325,614
Net income (loss)	(18,483)	48,493
Surplus, January 1st	97,139	48,646
Surplus, December 31st	$78,656	$97,139

See accompanying notes to financial statements.

MONTANA MEDICAL LEGAL PANEL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The Panel was established by the "Montana Medical Legal Panel Act", as authorized by Section 27-6-101 and 104 M.C.A. The Panel is attached to the Montana Supreme Court for administrative purposes only, except that 2-15-121 (2) M.C.A. does not apply.

The Panel was created to review all malpractice claims or potential claims against health care providers for the purpose of preventing, where possible, the filing of court actions against health care providers and their employees for professional liability in situations where the facts do not permit at least a reasonable inference of malpractice and to make possible the fair and equitable disposition of such claims against health care providers as are or reasonably may be well founded.

Cash Basis

The Panel follows the cash basis of accounting whereby items of expense are recognized as cash is paid and revenues are recognized when cash is received.

Assessment Fees

Annual assessments are levied against licensed physicians, dentists, hospitals, and other health care facilities in an amount sufficient to meet all panel costs. Annual assessments are apportioned among each group of health care providers according to the number of claims brought against each type of provider.

NOTE 2. RELATED PARTIES

G. Brian Zins is director of both the Montana Medical Association and the Montana Medical Legal Panel.

The Montana Medical Association bills the Montana Medical Legal Panel for services and facilities provided to that organization. The billings were $146,982 and $151,680 for 1993 and 1992, respectively.

MONTANA MEDICAL LEGAL PANEL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992

NOTE 3. SUBSEQUENT EVENT/CONTINGENCY

The Montana Medical Legal Panel has been named in a lawsuit claiming damages resulting from a decision of a review panel in a claim against a health care provider brought before the Panel. Management believes that the outcome of the suit will not result in a significant loss to the panel.

HENRY FENTON
CERTIFIED PUBLIC ACCOUNTANT
1052 NORTH RODNEY
HELENA, MT 59601

PHONE 449-6049

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

July 25, 1994

Mr. G. Brian Zins
Montana Medical Legal Panel
2021 Eleventh Avenue
Helena, Mt. 59601

I have audited the financial statements of the Montana Medical Legal Panel as of and for the year ended December 31, 1993, and have issued my report thereon dated July 25, 1994.

I conducted my audit in accordance with generally accepted auditing standards, and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Comliance with laws and regulations applicable to the Montana Medical Legal Panel is the responsibility of the Montana Medical Legal Panel's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the Montana Medical Legal Panel's compliance with certain provisions of laws and regulations. However, the objective of my audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests indicate that, with respect to the items tested, the Montana Medical Legal Panel complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to my attention that caused me to believe that the Montana Medical Legal Panel had not complied, in all material respects, with those provisions.

This report is intended for the information of the legislative audit committee and management. However, this report is a matter of public record and its distribution is not limited.

Henry Fenton
Certified Public Accountant

HENRY FENTON
CERTIFIED PUBLIC ACCOUNTANT
1052 NORTH RODNEY
HELENA, MT 59601

PHONE 449-6049

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

July 25, 1994

Mr. G. Brian Zins
Montana Medical Legal Panel
2021 Eleventh Avenue
Helena, Mt. 59601

I have audited the financial statements of the Montana Medical Legal Panel as of and for the year ended December 31, 1993, and have issued my report thereon dated July 25, 1994.

I have conducted my audit in accordance with generally accepted auditing standards, and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of the Montana Medical Legal Panel for the year ended December 31, 1993, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Montana Medical Legal Panel is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the basis of accounting adopted by management. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless

occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation off policies and procedures may deteriorate.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls
Cash balances
Cash receipts
Cash disbursements

Compliance with Laws
Assessments

For all of the internal control structure categories listed above, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk.

I noted certain matters involving the internal control structure and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I noted the following reportable condition that I believe to be a material weakness.

I noted that one individual is responsible for processing bills for payment; preparation, signing and mailing of checks; posting disbursements to the accounting records; and reconciling bank statements. This creates an opportunity for undetected errors or irregularities in the cash disbursement process. Some simple controls

such as requiring another person to sign checks or having another person review bank reconciliations (including examining canceled checks and matching them with the bank statement) would greatly reduce the risk in this area. I would recommend that management consider adopting one or both of these procedures.

Status of Prior Year Findings

There was no prior year report on internal controls.

This report is intended for the information of the legislative audit committee and management. However, this report is a matter of public record and its distribution is not limited.

Henry Fenton
Certified Public Accountant

Montana Medical Legal Panel

2021 Eleventh Avenue, Suite 1, Helena, Montana 59601-4890 • FAX (406) 443-4042 • Telephone 443-1110

July 26, 1994
Tuesday

Henry Fenton, C.P.A.
1052 North Rodney
Helena, Montana 59601

Dear Mr. Fenton:

In response to your July 25, 1994, letter about your report, as an independent auditor, of the internal control structure of the Montana Medical Legal Panel, the following is provided about your concern of processing bills for payment.

This procedure has been amended by requiring two individuals to sign checks and by having an additional person review bank reconciliations.

We do thank you and do express all best wishes.

Sincerely,

G. Brian Zins
Director

GBZ:le